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S E C R E T STATE 029098

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E.O. 12958: DECL: 03/13/2033

TAGS: ECON EFIN EINV ETRD PARM PGOV PREL KNNP MNUC IR

SUBJECT: ADDITIONAL INFORMATION ON THE ACTIVITIES OF BANK MELLI, BANK MELLAT, AND BANK SADERAT

REF: STATE 029096

Classified By: ISN PDAS Patricia A. McNerney
for reasons 1.4 (b) and (d).

¶1. (U) This is an action request. Please see paragraph 3.

SUMMARY AND BACKGROUND

¶2. (S) This cable provides additional information for addressees to deliver along with the information in REF A.

OBJECTIVE/ACTION REQUEST

¶3. (S) Washington requests Posts deliver the non-paper in paragraph 4 to appropriate host government officials in the foreign affairs and finance ministries. Posts should pursue the following objective:

-- Emphasize that provision in United Nations Security Council Resolution 1803 that Member State exercise vigilance over the activities of financial institutions in their territories with all banks domiciled in Iran, in particular with Bank Melli and Bank Saderat, and their branches and subsidiaries abroad.

-- Provide additional information on the activities of Iran's Bank Melli, Bank Mellat, and Bank Saderat and note this additional information may help states and banks implement this provision.

NONPAPER FOR UAE, SAUDI ARABIA, ITALY, JAPAN, UK, FRANCE, GERMANY, ROK, TURKEY, NETHERLANDS, SOUTH AFRICA, SPAIN, INDIA, SWEDEN, AUSTRIA, BRAZIL, BAHRAIN

¶4. (SECRET//REL UAE, SAUDI ARABIA, ITALY, JAPAN, UK, FRANCE,

GERMANY, ROK, TURKEY, NETHERLANDS, SOUTH AFRICA, SPAIN, INDIA, SWEDEN, AUSTRIA, BRAZIL, BAHRAIN)

BEGIN NON-PAPER FOR UAE, SAUDI ARABIA, ITALY, JAPAN, UK, FRANCE, GERMANY, ROK, TURKEY, NETHERLANDS, SOUTH AFRICA, SPAIN, INDIA, SWEDEN, AUSTRIA, BRAZIL, BAHRAIN:

Iranian Banks Facilitation of Terrorism and Proliferation Activities

-- In the spirit of our shared interest in the effective enforcement of UNSCR 1803, the U.S. would like to provide additional information on how Iran's Bank Melli and Bank Mellat have facilitated proliferation-related transactions, and how Iran's Bank Saderat has been used by the Government of Iran to send funds to terrorist organizations.

-- The UN Security Council has adopted three resolutions - UNSCRs 1737, 1747 and 1803 -- imposing sanctions on Iran to address the proliferation risks presented by its nuclear program and for its failure to comply with UNSCRs 1737 and 1747. The Financial Action Task Force has issued two statements on Iran's lack of anti-money laundering and combating terrorist financing (AML/CFT) controls, as well as guidance to financial institutions that identifies any customers or transactions associated with Iran as a key risk factor to weigh in determining whether a particular transaction may be related to proliferation financing.

-- The international community must take action against these banks in order to protect the international financial system from being exploited to facilitate Iran's illegal actions.

II. Bank Melli's Involvement in Iranian Proliferation

-- Information available to the U.S. Government indicates that Bank Melli serves as an important facilitator for Iran's proliferation financing. Through its role as a financial conduit, Bank Melli has facilitated purchases of sensitive materials for Iran's nuclear and missile programs. In doing so, Bank Melli has provided a range of financial services on behalf of Iranian nuclear and missile entities, including opening letters of credit and/or maintaining accounts.

-- Bank Melli's complicity in transactions with Iranian proliferation entities is indicated by the various roles it plays in the transaction. In certain cases, Bank Melli was listed as a consignee, which implies that Bank Melli was acting directly as an agent of the buyer in these cases. For example, Between April and July 2007, Bank Melli was listed as the consignee on multiple purchases for a company affiliated with Iran's missile program.

-- Bank Melli facilitated a transaction in April 2007 involving a North Korean shipment to Iran; the cargo was consigned to Bank Sepah, an entity designated in UNSCR 1747 for its involvement in Iran's nuclear and missile programs.

-- This was not an isolated case. Bank Melli has facilitated numerous transactions involving Iranian proliferation entities and others listed as subject to the asset freeze provisions of UNSCRs 1737 and 1747, including transactions that took place following the date of these entities' designations.

-- Bank Melli has also maintained accounts or facilitated numerous transactions for known Iranian missile and nuclear front companies and/or their suppliers indicating complicity and/or a lack of due diligence. These companies include Iran's Defense Industries Organization (DIO) and subordinates which oversee Iran's research, development, and production of missiles and rockets.

-- The following are specific examples of Bank Melli's involvement in proliferation-related activity:

-- The DIO and some of its subordinates, which conduct

research and development for Iran's defense and military forces and produce a wide variety of military-related weapons, technologies, and other equipment, have used Bank Melli's Hamburg branch to receive payments and to transfer funds.

-- A company subordinate to DIO involved in the marketing of Iranian-made chemical/biological defensive equipment used DIO accounts as of early 2005 at Bank Melli's Hamburg branch to receive payments for unidentified goods.

-- Bank Melli in June 2007 facilitated a number of payments from companies associated with AIO, which is the overall manager and coordinator for Iran's missile program.

-- Bank Melli has assisted Bank Sepah by providing financial support and acting on behalf of Bank Sepah, subsequent to Bank Sepah's designation in UNSCR 1747.

-- The Hong Kong branch of Bank Melli PLC, a UK-based subsidiary of Bank Melli, facilitated transactions involving Bank Sepah after Bank Sepah's designation in UNSCR 1747.

II. Bank Mellat's Involvement in Proliferation Transfers

-- The U.S. has information indicating that Bank Mellat has wittingly provided financial services in support of Iran's nuclear industry, namely the Atomic Energy Organization of Iran (AEOI), by servicing and maintaining AEOI bank accounts, mainly through AEOI's financial conduit, the Novin Energy Company. Both AEOI and Novin Energy Company were designated, under UNSCR 1737 and 1747 respectively, for their involvement in Iran's nuclear program. Bank Mellat has facilitated the movement of millions of dollars for Iran's nuclear program since at least 2003.

-- In June 2006, Bank Mellat was involved in a transfer totaling over a quarter of a billion U.S. dollars into an account it holds for Novin Energy Company. Iran's Bank Markazi (Iran's Central Bank) effected the payment to Bank Mellat's unspecified account at a named UK bank, for further credit to Bank Mellat's client - Novin Energy Company. The purpose of the payment is not known.

-- In September 2006, Bank Mellat facilitated a transfer for Novin Energy Company. The funds were credited to Novin's account held at Bank Mellat's main branch in Tehran.

-- In March 2007 Bank Mellat facilitated a payment from Novin Energy Company's account to a probable Iranian nuclear procurement company located in Tehran.

-- Bank Mellat has also had dealings with other UN-designated WMD proliferation-related entities. In mid 2007, Bank Mellat was involved in several transactions with Bank Sepah. Bank Sepah facilitated payments to accounts at Bank Mellat on behalf of entities associated with Iran's Aerospace industries Organization (AIO).

III. Bank Saderat's Support for Terrorism

-- Bank Saderat is used by the Government of Iran to transfer money to terrorist organizations such as Hizballah, Hamas, the Popular Front for the Liberation of Palestine-General Command and Palestinian Islamic Jihad. Bank Saderat's connections to these clients and transactions on behalf of these organizations have at times exceeded the boundaries of normal banking activities.

-- From 2001 to 2006, a Hizballah-controlled organization received at least \$50 million dollars from Iran through Bank Saderat.

-- Bank Saderat has been a conduit for funds from Hizballah supporters around the world to Hizballah and between Hizballah officials in Lebanon and abroad.

-- The Government of Iran has used Bank Saderat to channel

funds to the Palestine Islamic Jihad.

-- As of 2005, Hamas had significant financial assets deposited in Bank Saderat. In the past year, Bank Saderat has transferred several million dollars to Hamas.

-- Hizballah has used Bank Saderat to transfer funds, sometimes in the millions of dollars, to support the activities of other terrorist organizations.

END SECRET//REL UAE, SAUDI ARABIA, ITALY, JAPAN, UK, FRANCE, GERMANY, ROK, TURKEY, NETHERLANDS, SOUTH AFRICA, SPAIN, INDIA, SWEDEN, AUSTRIA, BRAZIL, BAHRAIN NON-PAPER.

REPORTING DEADLINE

¶5. (U) Post should report results within one week of receipt of this cable. Please slug replies for ISN, T, TREASURY, and NEA. Please include SIPDIS in all replies.

POINT OF CONTACT

¶6. (U) Washington point of contact for follow-up information is Michelle New, ISN/CPI, (202) 647-0186, newml@state.sgov.gov, or Jennifer Chalmers, ISN/CPI, (202) 647-9715, chalmersja@state.sgov.gov.

¶7. (U) Department thanks Posts for their assistance.
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